

**Course Syllabus**  
**Econ 590a 002: International Trade**  
**Academic Year 2007-2008**  
**Winter Session Term 1**

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**Introduction**

This is a PhD level course in international trade. We will cover the different theories of international trade and trade policy, and several topics that are the subject of current research in the field. Although there is a fixed set of topics that I intend to cover, you should let me know if there is a topic that you are interested in for your research and that is not in the syllabus. There are topics that we will not be able to cover and that Professor John Ries will cover in Econ 555.

**Schedule**

Class hours: Tuesdays and Thursdays, 11 – 12:30, Room Swing 408

**Books:**

Feenstra, Robert C. 2003. *Advanced International Trade: Theory and Evidence*. Princeton University Press. (F)

Dixit, Avinash K., and Victor Norman. 1980. *Theory of International Trade*. Cambridge University Press. (DN)

Helpman, Elhanan, and Paul R. Krugman. 1985. *Market Structure and Foreign Trade*. MIT Press. (HK85)

**Recommended books:**

Bagwell, Kyle, and Robert W. Staiger. 2002. *The Economics of the World Trading System*. MIT Press.

Grossman, Gene, and Elhanan Helpman. 1993. *Innovation and Growth in the Global Economy*. MIT Press. (GH93)

Helpman, Elhanan and Paul R. Krugman. 1989. *Trade Policy and Market Structure*. MIT Press. (HK89)

Baldwin, Richard E., Rikard Forslid, Philippe Martin, Gianmarco Ottaviano, and Frederic Robert-Nicoud. 2003. *Economic Geography and Public Policy*. Princeton University Press.

Fujita, Masahisa, Paul R. Krugman, and Anthony Venables. 1999. *The Spatial Economy*. MIT Press.

Krugman, Paul R. 1990. *Rethinking International Trade*. MIT Press. (K90)

Choi, E. Kwan and James Harrigan (editors). 2003. *Handbook of International Trade*. Blackwell Publishing Ltd. (CH)

Jones, Ronald W. and Peter B. Kenen (editors). 1984. *Handbook of International Economics (Volume 1 – International Trade)*. Elsevier North Holland (JK)

Grossman, Gene M. and Kenneth Rogoff (editors). 1995. *Handbook of International Economics (Volume 3)*. Elsevier North Holland (GR)

Jonathan Eaton and Sam Kortum are in the process of writing a book that will be useful for some of the topics covered in this course. The book title is “*Technology in the Global Economy: A Framework for Quantitative Analysis*”. The manuscript chapters are available at [http://www.econ.umn.edu/~kortum/courses/fall05/f05\\_nw.htm](http://www.econ.umn.edu/~kortum/courses/fall05/f05_nw.htm)

### **Class web site**

The class website is on WebCT at <https://www.elearning.ubc.ca/>. Class announcements, problem sets, syllabus, some lecture notes, and the reading list will be available on the website. I will update the website regularly as the class proceeds.

### **Articles:**

Most of the readings are available online. You can search all online journals via the UBC Library at <http://toby.library.ubc.ca/ejournals/ejournals.cfm>. I will make sure readings not available online will be posted on WebCT.

### **Grading**

Your class grade will be determined based on a midterm exam set for Thursday Oct 25<sup>th</sup> (35%), a final exam (35%), three or four problem sets (20%) and an in-class presentation of a paper in the reading list (10%). The final exam is not cumulative.

Come and talk to me about the paper you would like to present so that we can fit it in the schedule.

## **Class Outline and Readings**

### **A. Constant Returns to Scale and Perfect Competition**

#### **1. Gains from trade and comparative advantage**

- Feenstra Chapter 6 pp.174-188

- Dixit-Norman Chapter 2, 3, 4
- Dixit, Avinash, and Victor Norman. 1986. "Gains from Trade without Lump Sum Compensation." *Journal of International Economics* 21:111-122
- Deardorff, Alan V. 1980 "The General Validity of the Law of Comparative Advantage" *Journal of Political Economy* 88:941-57.
- Bernhofen, Daniel and John C. Brown. 2004. "A Direct Test of the Theory of Comparative Advantage: The Case of Japan." *Journal of Political Economy* 112:48-67.
- Bernhofen, Daniel and John C. Brown. 2005. "An Empirical Assessment of the Comparative Advantage Gains from Trade: Evidence from Japan." *American Economic Review* 95:208-225

## 2. Technology Differences: Ricardian Trade Theory

- Feenstra Chapter 1
- Dixit-Norman Chapter 3
- Dornbusch, Rudiger, Stanley Fischer, and Paul A. Samuelson. 1977. "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods." *American Economic Review* 67:823-39.
- Krugman, Paul R. 1990. "A 'Technology-Gap' Model of International Trade". Reprinted in *Rethinking International Trade*.
- Eaton, Jonathan, and Samuel Kortum. 2002. "Technology, Geography, and Trade." *Econometrica* 70:1741-80.
- Alvarez, Fernando and Robert E. Lucas. "General Equilibrium Analysis of the Eaton-Kortum Model of International Trade" *NBER Working Paper* 11764
- Matsuyama, Kiminori. 2000. "A Ricardian Model with a Continuum of Goods under Non-Homothetic Preferences: Demand Complementarities, Income Distribution and North-South Trade." *Journal of Political Economy* 108:1093-1120.

## 3. Factor Endowment Differences: Heckscher - Ohlin Theory

- Feenstra Chapter 1 (second part), 2 and 3
- Helpman-Krugman (1985) Chapter 1
- Dixit-Norman Chapter 4
- Davis, Donald R. 1995. "Intra-Industry Trade: a Heckscher-Ohlin-Ricardo Approach." *Journal of International Economics* 39:201-26.
- Trefler, Daniel. 1993. "International Factor Price Differences: Leontief Was Right!" *Journal of Political Economy* 101:961-87.
- Trefler, Daniel. 1995. "The Case of the Missing Trade and Other Mysteries." *American Economic Review* 85:1029-46.
- Schott, Peter K. 2003. "One Size Fits All? Heckscher-Ohlin Specialization in Global Production." *American Economic Review* 93:686-708.

## 4. Factor Prices and Trade

- Feenstra Chapter 4
- Leamer, Edward. 1998. “In Search of Stolper-Samuelson Effects on U.S. Wages,” in S. Collins, ed., *Exports, Imports and the American Worker*, Brookings, 1998
- Leamer, Edward. 2000. “What’s the Use of Factor Content.” *Journal of International Economics* 50:17-50.
- Krugman, Paul R. 2000. “Technology, Trade, and Factor Prices.” *Journal of International Economics* 50:51-72.
- Acemoglu, Daron. 2003. “Patterns of Skill Premia.” *Review of Economic Studies* 70:199-230

## 5. Externalities and Trade: External Economies of Scale

- Helpman-Krugman (1985) Chapter 3

## **B. Increasing Returns to Scale and Imperfect Competition**

### 6. Imperfect Competition and Trade: Oligopoly

- Helpman-Krugman (1985) Chapter 5
- Brander, James, and Paul R. Krugman. 1983. “A ‘Reciprocal Dumping’ Model of International Trade.” *Journal of International Economics* 15:313-321. Reprinted in *Rethinking International Trade*.

### 7. Imperfect Competition and Trade: Monopolistic Competition (Theory and Empirics). The Gravity Equation

#### a. Without transport costs

- Feenstra Chapter 5
- Helpman-Krugman (1985) Chapters 6-7-8-9
- Krugman, Paul R. 1979. “Increasing Returns, Monopolistic Competition, and International Trade.” *Journal of International Economics* 9:469-79. Reprinted in *Rethinking International Trade*.
- Helpman, Elhanan. 1987. “Imperfect Competition and International Trade: Evidence from Fourteen Industrial Countries.” *Journal of Japanese and International Economics* 1:62-81.
- Hummels, David, and James Levinsohn. 1995. “Monopolistic Competition and International Trade: Reinterpreting the Evidence.” *Quarterly Journal of Economics* 110:799-836.
- Debaere, Peter. 2002. “Monopolistic Competition and Trade, Revisited: Testing the Model without Testing for Gravity.” *Journal of International Economics* 66:249-266
- Evenett, Simon J., and Wolfgang Keller. 2002. “On the Theories Explaining the Success of the Gravity Equation.” *Journal of Political Economy* 110:281-316

#### b. With Transport Costs. Gravity equation and border effect

- McCallum, John. 1995. "National Borders Matter." *American Economic Review* 85:615-23
- Anderson, James A., and Eric van Wincoop. 2003. "Gravity with Gravitas: A Solution to the Border Puzzle." *American Economic Review* 93:170-92

**c. With Transport Costs. Home market effect. Economic geography**

- Helpman-Krugman (1985) Section 10.4
- Krugman, Paul R. 1980. "Scale Economies, Product Differentiation, and the Pattern of Trade." *American Economic Review* 70:950-59. Reprinted in *Rethinking International Trade*.
- Davis, Donald. 1998 "The Home Market, Trade, and Industrial Structure." *American Economic Review* 88:1264-1276.
- Head, Keith C. and John C. Ries. 2002. "Increasing Returns versus National Product Differentiation as an Explanation for the Pattern of US-Canada Trade." *American Economic Review* 91:858-76.
- Davis, Donald R., and David Weinstein. 1996. "Does Economic Geography Matter for International Specialization?" NBER Working Paper no. 5706
- Davis, Donald R., and David Weinstein. 2003. "Market Access, Economic Geography and Comparative Advantage: an Empirical Test." *Journal of International Economics* 59:1-23
- Krugman, Paul R., and Anthony Venables. 1995. "Globalization and the Inequality of Nations." *Quarterly Journal of Economics* 110:857-80.

**8. Imperfect Competition, Productivity Differences and Trade: the "Firm Heterogeneity" Models and Firm-Level Empirical Evidence**

- Clerides, Sofronis, Saul Lach, and James Tybout. 1998. "Is Learning by Exporting Important? Micro-dynamic Evidence from Colombia, Mexico, and Morocco." *Quarterly Journal of Economics* 113:903-47.
- Aw, Bee Yan, Sukkyun Chung, and Mark Roberts. 2000. "Productivity and Turnover in the Export Market: Micro-Level Evidence from the Republic of Korea and Taiwan (China)." *The World Bank Economic Review* 14(1): 65-90
- Bernard, Andrew, and J. Bradford Jensen. 1999. "Exceptional Exporter Performance: Cause, Effect, or Both?" *Journal of International Economics* 47:1-25.
- Bernard, Andrew, and J. Bradford Jensen. 2004. "Why Some Firms Export." *The Review of Economics and Statistics* 86:561-69
- Pavcnik, Nina. 2002. "Trade Liberalization, Exit, and Productivity Improvements: Evidence from Chilean Plants." *The Review of Economic Studies* 69:245-76.
- Tybout, James. 2001. "Plant- and firm-level Evidence on the 'New' Trade Theories". Printed in CH. NBER Working Paper 8418
- Bernard, Andrew, Jonathan Eaton, Bradford Jensen, and Samuel Kortum. 2003. "Plants and Productivity in International Trade." *American Economic Review* 93:1268-1290.

- Melitz, Marc. 2003. “The Impact of Trade on Intra-industry Reallocations and Aggregate Industry Productivity.” *Econometrica* 71:1695-1725.
- Bernard, Andrew, Steve Redding and Peter Schott. 2004. “Comparative Advantage and Heterogeneous Firms.” *NBER Working Paper* 10668
- Melitz, Marc and Gianmarco Ottaviano. 2003. “Market Size, Trade, and Productivity.” *NBER Working Paper* 11393
- Yeaple, Stephen. 2004. “A Simple Model of Firm Heterogeneity, International Trade and Wages.” *Journal of International Economics*

## **9. Multinationals, Outsourcing, the Theory of the Firm and Trade**

- Feenstra Chapter 11
- Markusen, James R., and Anthony Venables. 2000. “The Theory of Endowment, Intra-industry and Multi-national Trade.” *Journal of International Economics*. 52:209-234.
- Antràs, Pol. 2003. “Firms, Contracts, and Trade Structure.” *Quarterly Journal of Economics* 118:1374-1418.
- Grossman, Gene, and Elhanan Helpman. 2002. “Integration vs Outsourcing in Industry Equilibrium.” *Quarterly Journal of Economics*. 117:85-120

## **C. Dynamic Models**

### **10. Dynamics in HO**

- Ventura, Jaume. 1997. “Growth and Interdependence.” *Quarterly Journal of Economics*. 107:57-84.

### **11. Learning by doing**

- Young, Alwyn. 1991. “Learning by Doing and the Dynamic Effects of International Trade.” *Quarterly Journal of Economics* 106:369-405.

### **12. Endogenous technical change**

- Feenstra Chapter 10
- Book by Grossman and Helpman (1993)
- Krugman, Paul R. 1987. “The Narrow Moving Band, the Dutch Disease, and the Competitive Consequences of Mrs Thatcher: Notes on Trade in the Presence of Dynamic Scale Economies.” *Journal of Development Economics* 27:41-55. Reprinted in *Rethinking International Trade*.

## **D. Trade Policy**

### **13. Commercial Policy**

- Feenstra Chapter 7 and 8
- Bhagwati, Jagdish. “The Generalized Theory of Distortions and Welfare.” In Bhagwati, *Readings* Chapter 16.

- Brander, James and Barbara Spencer. 1985. "Export Subsidies and International Market Share Rivalry." *Journal of International Economics* 16:83-100.
- Helpman-Krugman book (1989).

#### **14. Trade Agreements, Trade Blocs and the WTO**

- Krugman, Paul R. 1993. "Regionalism versus Multilateralism: analytical notes" in *New Dimensions in Regional Integration*, editors J. De Melo and A. Panagariya. Cambridge: Cambridge University Press.
- Bagwell and Staiger book.

#### **15. Political Economy of Protection**

- Feenstra Chapter 9
- Grossman, Gene, and Elhanan Helpman. 1994. "Protection for Sale." *American Economic Review*. 84:833-50.
- Grossman, Gene, and Elhanan Helpman. 1994. "Trade Wars and Trade Talks." *Journal of Political Economy*. 103:675-708.